The Medicare Trust Fund: A Fact Sheet

Medicare Consists of Two Parts

- ***Hospital Insurance (Part A)*** - financed by a 2.9 percent payroll (FICA) tax split evenly between employee and employer. Revenues from the payroll tax is held in the Hospital Insurance Trust Fund and used to pay Part A benefits, which include hospital, home health, skilled nursing facility, and hospice care.

- ***Supplementary Medical Insurance (Part B)*** - financed by monthly $50 premiums by current enrollees (about 25 percent of program costs) and from general revenues. Premiums and revenues are held in the Supplementary Medical Insurance Trust Fund and used to pay Part B benefits, which include physician and other professional services.

The Trust Fund Surpluses

Each year the Medicare trustees issue a report which contains their estimate of the financial condition of the Part A and Part B Trust Funds. The report for 2001 includes estimates that show both trust funds are in surplus. These projected surpluses show solvency of the Part B Trust Fund into the "indefinite future" and solvency of the Part A Trust Fund through 2029.

The Congressional Budget Office's budget projections issued in January 2001 reaffirm the trustees projections. Table 1-7 on page 19 of CBO's Budget Outlook shows that the Part A Trust Fund will have a surplus of $393 billion over the next ten years and also projects a Part B surplus of $13 billion for the same period. By its own accounting, the Administration projects a Part A surplus of $526 billion and a Part B surplus of $17 billion. Tables in the President's budget show these surpluses through 2006 – and data provided separately by the Administration confirm the ten-year estimates.

Where's the Deficit?

The Administration and some Congressional Republicans have tried to argue that the Medicare program is in "deficit." By denying the existence of surpluses in both trust funds, they can avoid the hard truth that the tax cut, the economic slowdown, and other budget policies "raid" the Medicare Trust Fund surpluses and weaken the long-term fiscal integrity of the Medicare program.

Medicare "deficit" proponents argue that because three-fourths of the Part B Trust Fund comes from general revenues, Medicare operates in deficit. However, this is an inaccurate characterization. Because those general revenue contributions are required by law, counting them as part of the Part B Trust Fund surplus calculation is just as legitimate as counting projected payroll taxes as part of Part A or Social Security Trust Fund surpluses. Furthermore, if Medicare is in "deficit," then every other government program that is not completely paid for by premiums or by specially earmarked taxes would likewise be in deficit. This includes the entire Department of Defense, the National Institutes of Health, and every penny we spend on education.

What Constitutes a Raid on Medicare?

About 86 percent of the Part A Trust Fund income is from payroll taxes. (Most of the rest is from interest on securities held by the Trust Fund.) These earmarked Medicare tax dollars can be used in three ways:

- ***Paying Medicare benefits.*** Medicare payroll taxes pay for hospital, home health, skilled nursing facility, and hospice care. Based on the latest report from the Medicare trustees, these benefits are fully funded through 2029. (If, however, these dollars were designated for a prescription drug benefit or any other new expenditure, the fund would become insolvent several years earlier.)

- ***Paying Down Debt***. When income exceeds the amount needed to pay for current benefits, the surplus income may be used to pay down debt. Debt reduction strengthens the Government's fiscal position, promotes economic growth, and protects the program from fiscal pressures that will mount as an aging population increases the Government's obligation to provide retirement income and health services.

- ***A Raid on Medicare***. If Medicare payroll taxes are used to pay for programs other than Medicare and are not reserved to pay down debt, Chairman Conrad believes that constitutes a raid on Medicare Trust Funds. The combination of the tax cut and the impact of an economic slowdown on this year's budget means Medicare funds will likely be needed to pay for other programs as early as this year, and next year the surpluses of both the Medicare and Social Security Trust Funds will likely be needed to support other programs. Over the long-term, the Bush defense request, spending for education or tax extenders, or other policies left out of the budget are likely to consume virtually all of the Medicare Trust Fund surplus and a significant portion of the surplus reserved for Social Security.

Preserving the Trust Fund surpluses will mean less resources in the short term for new spending initiatives or for tax cuts that were not included in the FY 2002 budget. However, protecting the Trust Fund surpluses and using them to pay down the nation's debt will, over the long-term, spur economic growth and help insure the fiscal health of the federal government so that our obligations to provide Medicare and Social Security benefits can be met.

Republicans on Trust Funds

Although the Administration and some Republican Members of Congress may support a raid on the Trust Funds, they will face opposition from their own Republican colleagues, as evidenced by the following comments made by leading House and Senate Republicans:

- ***House Budget Committee Chairman Jim Nussle – July 11, 2001***

  "(T)his Congress will protect 100 percent of the Social Security and HI trust funds. Period. No speculation. No supposition. No projections. The Congress has voted, unanimously – or almost unanimously; there were a few that didn't see it this way – for lockboxes and all sorts of different mechanisms to make sure that this occurred. Both parties prepared budgets that did so. We will protect 100 percent of Medicare and Social Security."

- ***House Majority Leader Dick Armey – July 1, 2001***

  "Let me just be very clear on this. The House of Representatives are not going to go back to raiding Social Security and Medicare trust funds."

- ***House Speaker Dennis Hastert - March 2, 2001***

  "We are going to wall off Social Security trust funds and Medicare trust funds...And consequently, we pay down the public debt when we do that. So we are going to continue to do that. That's in the parameters of our budget and we are not going to dip into that at all."

- ***Senator John Ashcroft - June 22, 2000***

  "Last year, for the first time since 1957, Congress balanced the budget without spending a penny of the Social Security surplus. When Congress accomplished this important goal, I immediately set my sights on a higher goal – that is, to protect the Medicare Part A surplus in the same manner."

- ***Senator Pete Domenici - March 18, 1998***

  "...For every dollar you divert to some other program you are hastening the day when Medicare falls into bankruptcy, and you are making it more and more difficult to solve the Medicare problem in a permanent manner into the next millennium."

- ***Senator Pete Domenici - March 18, 1998***

  "...Let me tell you, for every argument made around this table today about saving Social Security, you can now put it in the bank that the problems associated with fixing Medicare are bigger than the problems fixing Social Security, bigger in dollars, more difficult in terms of the kind of reform necessary, and frankly, I am for saving Social Security. But it is most interesting that there are some who want to abandon Medicare...when it is the most precarious program we have got."

Prepared by Senate Budget Committee Majority Staff
Senator Kent Conrad, Chairman
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